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★ STATE-LOCAL ★ BACKGROUNDER

STATE AID TO CITIES & TOWNS

One of a series of Backgrounder reports
on issues of importance to cities and state municipal leagues

National League of Cities

★STATE-LOCAL★ BACKGROUNDER

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STATE AID TO CITIES & TOWNS
Sharpening the Focus

By

Douglas D. Peterson
Senior Policy Analyst
National League of Cities

July 1988

National League of Cities
State-Local Backgrounder Series
Series Editor: William R. Barnes

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Preface

This report analyzes the major components of state financial aid to cities as well as establishing a basis by which to compare the varying levels of such assistance between states. It is another in NLC's State-Local Backgrounder Series, reports on issues of importance to cities and state municipal leagues.

This publication responds specifically to a request of the State League Directors' Planning Group for an investigation of state financial aid to cities and towns.

The report is also a component in NLC's continuing research agenda in the field of municipal finance. This agenda includes the annual city fiscal conditions surveys, a series monitoring the impacts of federal tax reform on cities, as well as the recent publications *Local Government Tax Authority and Use* and *Financing Infrastructure: Innovations That Work at the Local Level.*

Douglas Peterson, Senior Policy Analyst in NLC's Office of Policy Analysis and Development prepared the report under the supervision of William R. Barnes, NLC Research Director.

This report makes an important contribution to our understanding of state financial assistance to cities and towns in two ways: first, by reporting the amounts of such assistance and second, by developing a method of comparing the differing levels of such aid from state to state. NLC is publishing it to encourage further discussions about and better understandings of this important topic in the fields of city finance and intergovernmental relations.

Alan Beals
Executive Director

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Director,
Office of Policy
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EXECUTIVE SUMMARY

State Aid to Cities & Towns:
Sharpening The Focus

Douglas D. Peterson

National League of Cities

July 1988

State aid to local jurisdictions has acquired an increasing importance as the growth of federal aid to local government has been reduced. But municipal governments receive only a relatively small share of the funds that flow from states to local jurisdictions.

Municipal governments receive only about 21 percent of the state funds that flow to local jurisdictions. And when state funds for public education and public welfare, two functions that are the responsibility of only a very few municipal governments, are removed from the equation, municipal governments receive only about 12 percent of all state aid to local jurisdictions.

The amount of this "adjusted city aid" (state aid to cities minus education and public welfare funds) and the proportion of the state budget that it represents vary considerably from state to state.

In terms of dollars, Alaska provides the largest amount of adjusted city aid per city resident—$572. At the other end of the range is West Virgina, with $8 per city resident. Half the states provide more than $59 per city resident; half provide less.

The share of the state budget devoted to adjusted city aid ranges from a high of 10 percent in Massachusetts to a low of less than 1 percent in West Virgina. On the average, states devoted 3.5 percent of their budgets to adjusted city aid.

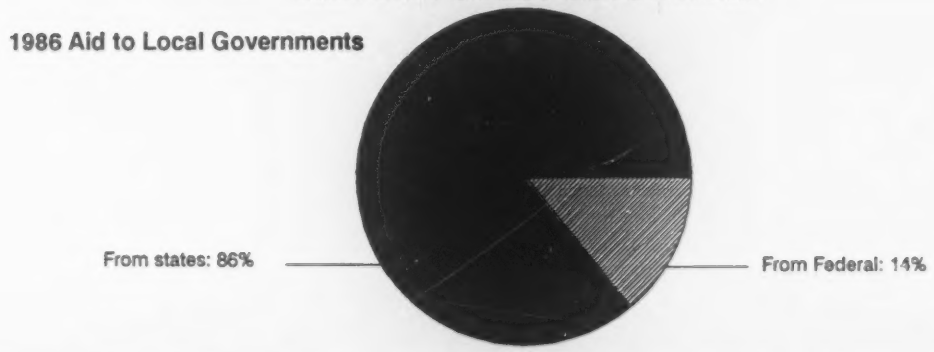
The role that this aid plays in municipal budgets also varies. In Wyoming, adjusted city aid finances 45 percent of municipal spending, while in Texas and West Virgina it only accounts for 2 percent. Nationally, state aid to cities finances an average of 15.6 percent of city spending.

I. WHY AND HOW THIS REPORT WAS DONE

State aid to local governments has acquired an increasing importance as the growth of federal aid to local governments has been reduced. But municipal governments receive a relatively small share of the aid that states provide to all local jurisdictions, including counties, school districts and special districts in addition to municipalities.

In 1985-86 (the latest year for which comprehensive statistics are available), state aid to local governments was six times more than the amount received by these same jurisdictions directly from the federal government. During fiscal year 1986, local governments received $126.8 billion in financial aid from state governments compared to $20.4 billion in federal aid. Even when it is realized that a portion of the $126.8 billion in state aid is composed of federal aid passed through the states to their local governments, the importance of this state-to-local flow of funds is obvious.

States Provide Six Times More Aid to Local Governments than the Federal Government

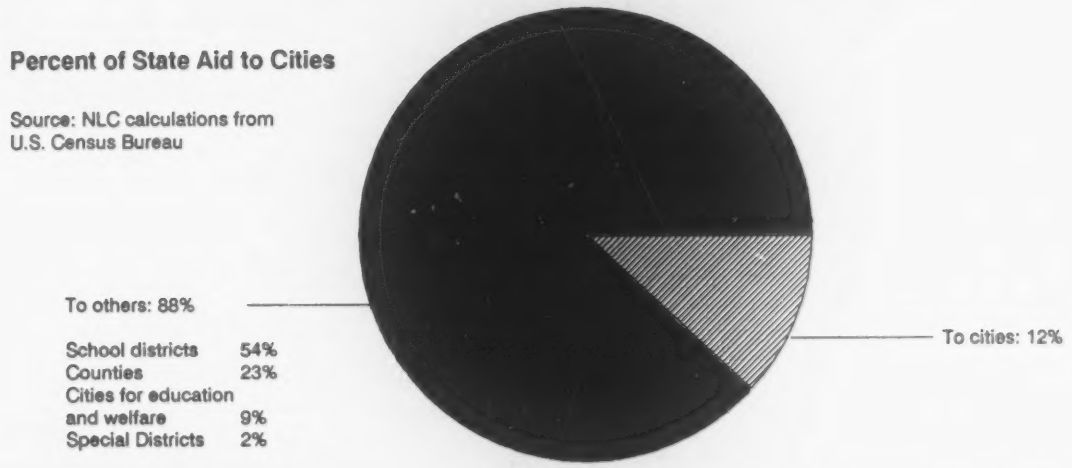


Aggregate information on state aid to local governments is generally the most readily and conveniently available information, but it is of limited utility to the National League of Cities. As an organization of state municipal leagues and municipalities, NLC and its membership need to know specifically about the level of funds flowing to municipal governments, the relationship of this aid to the larger state-local picture, and how and why the patterns of aid vary between states.

NLC's State League Directors' Planning Group, recognizing this lack of easily available comparative information, asked NLC to examine state aid to cities.

For city officials, the state-to-local assistance figures can be misleading since municipal governments receive only about 21 percent of these funds. When spending for education and public welfare, functions not commonly performed by municipal governments, is excluded, city governments receive only 12 percent. This report attempts to sort out these payments so that some more meaningful cross-state comparisons can be made.

Cities Receive 12 percent of State Aid
(excluding aid for education and welfare)


Percent of State Aid to Cities
Source: NLC calculations from U.S. Census Bureau
To others: 88%
School districts 54%
Counties 23%
Cities for education and welfare 9%
Special Districts 2%
To cities: 12%

In this report, state aid to all local governments will first be briefly reviewed, then aid to all jurisdictions except cities will be removed to reveal state aid to cities. Next, aid to cities for educational and public welfare purposes will be removed to reveal the indicator that will be termed "adjusted city aid."

This concept of "adjusted city aid" will be a central focus of this report.

Defining Terms and Sources

Before proceeding further, some terms, conventions, and sources must be defined.

First, this report will examine one form of state aid to cities only—direct cash payments. While other types of state assistance are extremely important, their examination is beyond the scope of this report. Examples of these other types of aid are discussed briefly later in this chapter.

Second, the source of the basic data for this report is the U. S. Census Bureau's report, *Government Finances in 1985-86*, published in November 1987. This publication is part of an annual series produced by the Governments Division of the Bureau of the Census. This particular issue covers fiscal years that ended June 30, 1986, or, if not on that date, during the previous 12 months. This time period is the most recent for which comparative figures are available. The report makes use of some sampling procedures to develop the data. For a further description of this report and the series of which it is a part please refer to the appendix.

Third, in this report the words "city" and "municipality" are used interchangeably to mean the more than 19,000 local government units classified by Census as "municipalities" and, in addition, the 1,600 jurisdictions classified as "towns" in the seven northeastern states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island, and Vermont. These "towns" are included both because they are members of the state municipal leagues in these states and also because the general governmental tasks they perform are indistinguishable from the tasks performed by cities in other states.

Fourth, the District of Columbia is not included in the analysis in the tables of this report because it is classified by Census as a municipality; the absence of a state government for the District makes the concept of state aid meaningless.

Fifth, there is an almost infinite variety of patterns in the way state and local governments are organized throughout the United States. These organizational choices about assignment of responsibilities and revenue raising authority have significant implications when interpreting the flow of state aid. No matter how many disclaimers are made or different indicators developed, no standardized analysis can completely explain state to city assistance. This report should be viewed as a starting point for further questions and as an aid in establishing some overall perspective.

Other Forms of State Aid

The choice of direct state payments, as mentioned above, is not to belittle or downgrade other forms of state assistance to municipalities, which are important, but merely to narrow the field for this particular report.

Other forms of state assistance to municipal governments, besides direct cash payments would include at least the types listed below. None of these forms will be examined in this report, but the list suggests future research tasks.

State Grants of Authority to Cities

The grant of broad local autonomy and discretion to cities in determining local priorities and their means of implementation is probably one of the most useful forms of state assistance a state can give. A few examples of this would include:

- Authority to use a wide variety of taxes, fees and other local revenues. Local authority to raise revenues gives the community the opportunity to design the most workable and locally acceptable package. This general subject was recently analyzed in the NLC publication *Local Tax Authority and Use* by Dr. John Mikesell and Dr. John Bowman.

- The absence of mandates or requirements imposed on local governmetns.

- The absence of state-imposed spending and tax limits or if such limits exist preserving the maximum amount of local discretion within the constraints.

Technical Assistance

States can and do provide assistance in the form of research, technical assistance, consulting, joint purchasing arrangements that allow municipalities to acquire goods cost-effectively, bond pools that consolidate borrowing to lower borrowing costs, and state investment pools that give cities access to liquid, high yield investment opportunities for temporarily idle funds.

State Assumption or Retention of Costs

A state may directly assume the costs of a service or pay directly for a portion of these costs. For example, a state may pay for all maintenance, repair, and construction costs of major roads passing through a city. This contribution would not show up as state aid since no cash is passed from the state to the city, but it would leave the city better off than if the road costs were paid from the city budget.

Another example of state cost retention occurs when a state pays the retirement premiums for city employees. If those payments are made to a state fund or a private enterprise, no cash is passed between the state and the city, but the city's out-of pocket personnel costs are obviously reduced.

Tax Relief Programs

This type of program is also not reflected unless the payments are made directly to local governments. In 1984 the Advisory Commission on Intergovernmental Relations reported that 32 states had some type of tax relief program. Most of these programs, which are usually designed to provide a reduction in the property tax burden, provide for direct payments to the taxpayer or credits against state income tax payments. Obviously, to the extent that these programs offer city taxpayers relief from city taxes, they constitute a form of aid to the city government.

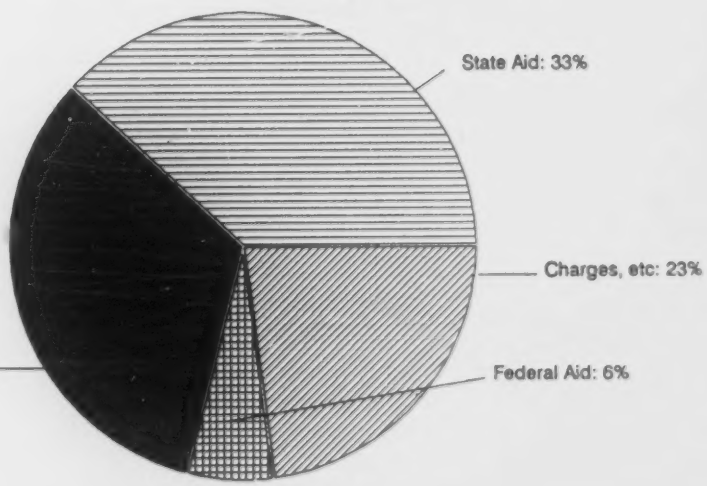
II. AN OVERVIEW OF STATE AID TO LOCAL GOVERNMENTS

In 1986 state payments to local governments totaled $126.8 billion. This represented 33 percent of total general (nonutility) revenue for local governments. This figure was second only to tax revenue, which at $145 billion constituted 38 percent of local receipts. Charges and miscellaneous revenue contributed 23 percent of the total with federal grants comprising the balance at 6 percent.

State Aid is the Second Largest Source of Local Government Revenue

Local Government Revenue Sources

Source: NLC calculations from U.S. Census Bureau 1986 fiscal year

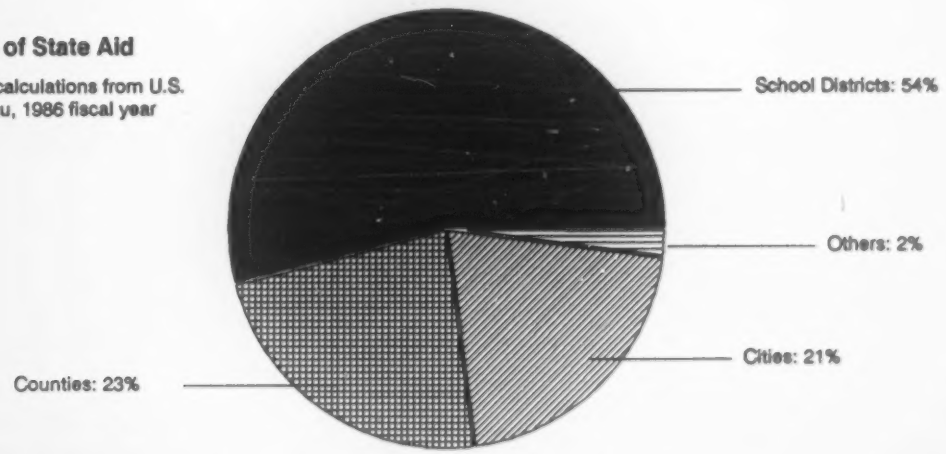


Of total local aid, school districts received 54 percent of the funds, counties followed at 23 percent, with city governments close behind at 21 percent. The balance of 2 percent was distributed to special districts and townships.

Half of State Aid Is Received by School Districts

Recipients of State Aid

Source: NLC calculations from U.S. Census Bureau, 1986 fiscal year

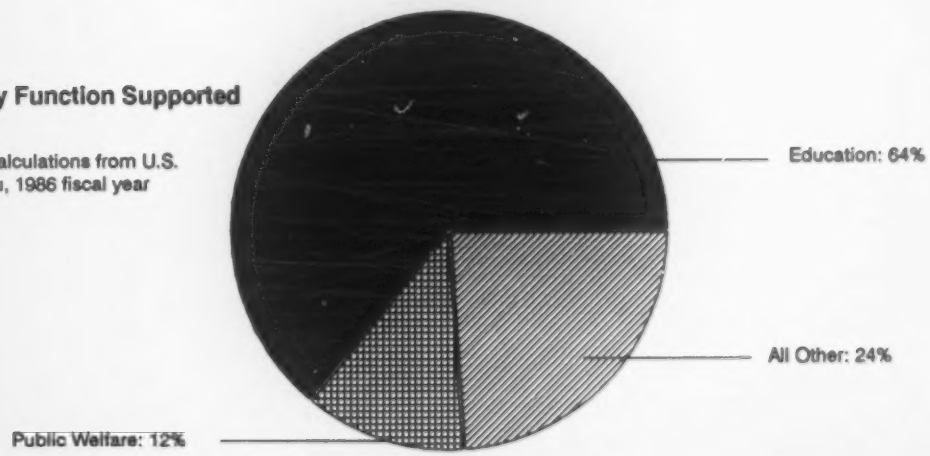


Examining the aid in broad functional areas reveals that more than three-fourths was distributed for two purposes: public education and public welfare payments. This is not surprising: states are legally responsibile for these functions.

Three Fourths of State Aid Is for Education and Public Welfare

State Aid by Function Supported

Source: NLC calculations from U.S. Census Bureau, 1986 fiscal year



Many states have been or are currently involved in litigation to establish the extent of state responsibility pursuant to state constitutional requirements that call for them to provide a "uniform" or "standard" system of state schools. This question is usually reduced to a discussion of the amount and method of distributing state aid to the public schools.

In the area of public welfare, county governments, as administrative subdivisions of the state government, are often assigned the responsibility of operating public aid programs locally, in accord with state requirements and with state funding.

Another way of looking at these relationships is to compare local government spending in these two areas to the level of state aid received to support the function.

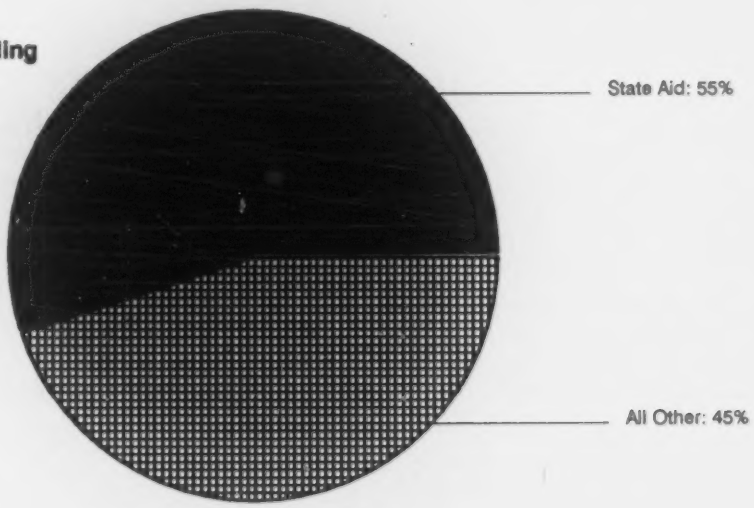
- Local governments spent $144 billion on elementary and secondary education during 1986 and received $81 billion in funding from the states to help support this expenditure. State aid thus represented 55 percent of local educational expenditures.

- In the field of public welfare, 1986 local government expenditures were $18 billion with state aid financing just over 80 percent of the total or $14.8 billion.

State Aid Pays for More Than Half of Local Education Costs

Sources of Educational Funding

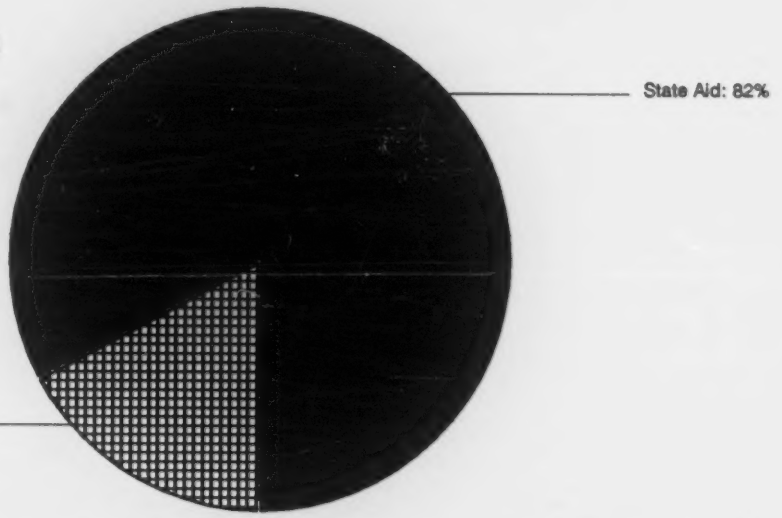
Source: NLC calculations from U.S. Census Bureau, 1986 fiscal year



State Aid Pays For 82 Percent of Public Welfare Costs

Sources of Welfare Funding

Source: NLC calculations from U.S. Census Bureau, 1986 fiscal year



The high level of state participation in these functions helps to explain why they loom so large in the functional breakdown of state aid to local governments.

A closer look at state aid to education (which represents 64 percent of total state aid) reveals that school districts receive 84 percent of it. Similarly, school districts spent just over 82 percent of total local spending on this function. The remaining 16 percent of educational aid was evenly split between cities and counties, 8 percent to cities and 8 percent to counties.

This brief review leads to three generalizations. First, the most common way of providing education is through the use of independent school districts. Second, the absolute expenditure for education is large. Third, there is a high level of state interest and/or responsibility for education.

The same jurisdictional concentration is seen in the area of state aid for public welfare (12 percent of total state aid). Counties receive 70 percent of state aid for public welfare and municipalities the remaining 30 percent. New York City alone receives over three-quarters of the municipal amount.

State aid for public welfare is equal to 80 percent of the corresponding expenditures.

These pieces of information lead to two generalizations. First, when a state elects to have public welfare services delivered through local governments, counties are the most common choice. Second, state government, through its high level of aid, retains a high degree of responsibility for the function.

The state aid to local governments remaining after subtracting aid to education and aid for public welfare payments is termed "adjusted local aid" for purposes of this paper. This category of aid represents 24 percent of state aid to local governments.

Cities receive 49 percent of this type of assistance, counties receive 42 percent, and the balance is divided between special districts (6 percent) and townships at (3 percent).

III. STATE AID TO CITIES AND TOWNS

Next we need to examine the amount of financial aid given to cities in each state during 1986. Cities, throughout this report, include the more than 19,000 local governments classified by the Census Bureau as "municipalities" and 1,600 towns in the northeastern United States for a total of more than 20,600 governments.

These jurisdictions may be called cities, villages, or towns but they share one basic characteristic—they provide general services to their residents. In most cases these northeastern towns (in states of Maine, Massachusetts, Vermont, Connecticut, Rhode Island, New Hampshire, and New Jersey) provide a wide range of municipal services and are essentially similar in their operations to cities in other states. (In these states "towns" are members of the state municipal leagues.)

Just as the states vary on most other criteria, they exhibit considerable variety in their municipal organization and funding granted to these municipalities. Table III-1 shows the amount of aid to municipal governments on a total basis. As is to be expected, the more highly populated states also tend to be those with the largest volumes of municipal assistance.

New York leads the way with $8.9 billion in aid to its municipalities followed by Massachusetts at $2.5 billion and California at $2.1 billion. At the other extreme, both Delaware and West Virginia each provide less than $10 million in aid to their cities.

While these total figures are roughly related to the population of the state, they also give clues to how functions are assigned between state and local jurisdictions.

For example, in New York, 78 percent of aid to cities is composed of aid to support public education and public welfare, responsibilities not normally assigned to municipal governments. The

TABLE III-1
TOTAL STATE AID TO CITIES (1986 figures – dollars in thousands)

	Total State Aid To Cities	Total Local Aid	Aid to Cities As Percent of Total
Alabama	58,335	1,526,332	4
Alaska	519,114	846,856	61
Arizona	423,560	1,993,664	21
Arkansas	71,640	897,968	8
California	2,137,166	24,080,555	9
Colorado	178,610	1,464,234	12
Connecticut	955,619	984,071	97
Delaware	6,914	307,267	2
Florida	436,211	5,228,190	8
Georgia	56,894	2,367,992	2
Hawaii	22,741	48,631	47
Idaho	31,348	410,946	8
Illinois	674,646	4,529,633	15
Indiana	353,662	2,597,896	14
Iowa	180,575	1,396,150	13
Kansas	68,240	891,324	8
Kentucky	48,357	1,327,166	4
Louisiana	122,384	1,799,026	7
Maine	192,812	380,570	51
Maryland	620,794	1,831,134	34
Massachusetts	2,478,420	3,188,598	78
Michigan	952,964	4,564,604	21
Minnesota	489,801	3,242,458	15
Mississippi	169,065	1,245,320	14
Missouri	113,026	1,433,901	8
Montana	20,157	284,577	7
Nebraska	71,855	447,847	16
Nevada	95,348	623,123	15
New Hampshire	69,640	136,435	51
New Jersey	1,593,786	4,393,049	36
New Mexico	207,497	1,050,527	20
New York	8,886,052	15,429,029	58
North Carolina	231,734	2,975,580	8
North Dakota	34,368	344,691	10
Ohio	398,321	5,164,566	8
Oklahoma	43,026	1,393,688	3
Oregon	76,640	1,005,944	8
Pennsylvania	417,364	5,004,464	8
Rhode Island	276,939	285,059	97
South Carolina	38,167	1,178,080	3
South Dakota	11,661	174,809	7
Tennessee	549,928	1,393,028	39
Texas	150,953	6,346,774	2
Utah	22,166	763,689	3
Vermont	19,951	125,132	16
Virginia	973,559	2,371,337	41
Washington	220,982	2,700,443	8
West Virginia	5,907	864,020	1
Wisconsin	780,888	3,317,217	24
Wyoming	120,263	464,297	26
All states	**26,680,050**	**126,823,891**	**21**

sheer size of New York City and its services explains much of this figure. New York City receives 92 percent of all assistance provided to cities in New York State.

Massachusetts has played a growing role in financing local governments since Proposition 2 1/2 severely restricted local revenue raising capacity, effectively centralizing revenue raising at the state level. Other factors that influence Massachusetts' performance include a booming local economy that has accelerated revenue growth at the state level, the fact that a number of municipalities are responsibile for education, and the existence of town governments that together with "cities" blanket the entire territory of the state. Massachusetts towns thus perform some services and receive related aid for services that are typically performed by county governments in other areas of the country.

In California, however, the level of funding is almost completely explained by the size of the state. When aid for public education and public welfare is excluded California's adjusted state aid per city resident closely mirrors the comparable national figures.

At the other extreme, the West Virginia and Delaware figures are small, largely as a function of small state budgets, which themselves mirror the small size of these two states. In the case of West Virginia, severe fiscal stress is an added factor. Additionally, neither state assigns welfare or education responsibilities to cities.

A review of Table III-2 shows the total amount of state aid provided to cities in each state and the portions of that total that are assistance in the areas of education and public welfare. Several factors are used to make interstate comparisons of these figures more meaningful.

Two different measures are used in the following tables to assist such comparisons. First, Table III-3 shows the percentage distribution of state aid in these four categories. Table III-4 shows the same categories of aid on a "per city resident" basis.

While these figures are interesting and shed quite a bit of light on interstate variation in organization and function, the key figures for this discussion are found in the fourth column of Table III-4, "Adjusted City Aid per City Resident".

Granted, no simple mathematical adjustments can produce perfect comparability between states. But the "adjusted city aid" figure offers the most informative single number to anchor a discussion of state aid to cities.

Adjusted City Aid

"Adjusted city aid" is defined as total state aid to cities, minus aid to education and minus aid for public welfare.

TABLE III-2
STATE AID TO CITIES – BY FUNCTION (1986 Figures – Dollars in Thousands)

	Total State Aid To Cities	Aid For Education To Cities	Aid for Public Welfare To Cities	Adjusted City Aid
Alabama	58,335	167	593	57,575
Alaska	519,114	276,042	10,553	232,519
Arizona	423,560	0	2,165	421,395
Arkansas	71,640	0	880	70,760
California	2,137,166	34,775	241,458	1,860,933
Colorado	178,610	0	96,822	81,788
Connecticut	955,619	666,366	72,114	217,139
Delaware	6,914	0	0	6,914
Florida	436,211	0	0	436,211
Georgia	56,894	0	241	56,653
Hawaii	22,741	0	0	22,741
Idaho	31,348	0	26	31,322
Illinois	674,646	376	60,306	613,964
Indiana	353,662	0	53,913	299,749
Iowa	180,575	0	0	180,575
Kansas	68,240	0	113	68,127
Kentucky	48,357	0	0	48,357
Louisiana	122,384	0	3,075	119,309
Maine	192,812	122,148	4,432	66,232
Maryland	620,794	240,574	0	380,220
Massachusetts	2,478,420	1,281,556	95,740	1,100,124
Michigan	952,964	256	8,176	944,532
Minnesota	489,801	0	0	489,801
Mississippi	169,065	0	4	169,061
Missouri	113,026	0	3,876	109,150
Montana	20,157	0	0	20,157
Nebraska	71,855	70	11	71,774
Nevada	95,348	0	0	95,348
New Hampshire	69,640	9,489	19	60,132
New Jersey	1,593,786	421,200	25,978	1,146,608
New Mexico	207,497	13	0	207,484
New York	8,886,052	2,755,038	3,616,935	2,514,079
North Carolina	231,734	0	0	231,734
North Dakota	34,368	22	62	34,284
Ohio	398,321	0	737	397,584
Oklahoma	43,026	0	809	42,217
Oregon	76,640	0	0	76,640
Pennsylvania	417,364	1,552	73,769	342,043
Rhode Island	276,939	214,865	21,574	40,500
South Carolina	38,167	0	0	38,167
South Dakota	11,661	0	77	11,584
Tennessee	549,928	331,703	949	217,276
Texas	150,953	2	2,005	148,946
Utah	22,166	0	0	22,166
Vermont	19,951	0	0	19,951
Virginia	973,559	606,026	91,599	275,934
Washington	220,982	48	277	220,657
West Virginia	5,907	0	0	5,907
Wisconsin	780,888	0	2,570	778,318
Wyoming	120,263	0	0	120,263
Total	26,680,050	6,962,288	4,492,854	15,224,904

TABLE III-3
STATE AID TO CITIES – PERCENTAGE DISTRIBUTION BY FUNCTION
(1986 Figures – Dollars in Thousands)

	Total	Education	Public Welfare	Adjusted Aid
Alabama	100	0	1	99
Alaska	100	53	2	45
Arizona	100	0	1	99
Arkansas	100	0	1	99
California	100	2	11	87
Colorado	100	0	54	46
Connecticut	100	70	7	23
Delaware	100	0	0	100
Florida	100	0	0	100
Georgia	100	0	0	100
Hawaii	100	0	0	100
Idaho	100	0	0	100
Illinois	100	0	9	91
Indiana	100	0	15	85
	100	0	0	100
Kansas	100	0	0	100
Kentucky	100	0	0	100
Louisiana	100	0	3	97
Maine	100	64	2	34
Maryland	100	39	0	61
Massachusetts	100	52	4	44
Michigan	100	0	1	99
Minnesota	100	0	0	100
Mississippi	100	0	0	100
Missouri	100	0	3	97
Montana	100	0	0	100
Nebraska	100	0	0	100
Nevada	100	0	0	100
New Hampshire	100	14	0	86
New Jersey	100	26	2	72
New Mexico	100	0	0	100
New York	100	31	41	28
North Carolina	100	0	0	100
North Dakota	100	0	0	100
Ohio	100	0	0	100
Oklahoma	100	0	2	98
Oregon	100	0	0	100
Pennsylvania	100	0	18	82
Rhode Island	100	78	8	14
South Carolina	100	0	0	100
South Dakota	100	0	1	99
Tennessee	100	60	0	40
Texas	100	0	1	99
Utah	100	0	0	100
Vermont	100	0	0	100
Virginia	100	62	10	28
Washington	100	0	0	100
West Virginia	100	0	0	100
Wisconsin	100	0	0	100
Wyoming	100	0	0	100

TABLE III-4
STATE AID PER CITY RESIDENT – BY FUNCTIONAL AREA(1986 Figures in Dollars)

	Total Municipal Aid Per Municipal Resident	Education Aid Per Municipal Resident	Public Welfare Aid Per Municipal Resident	Adjusted City Aid Per City Resident
Alabama	23.94	0.00	0.24	23.63
Alaska	1,276.19	678.62	25.94	571.62
Arizona	171.57	0.00	0.88	170.69
Arkansas	49.67	0.00	0.61	49.06
California	102.72	1.67	11.61	89.44
Colorado	75.08	0.00	40.70	34.38
Connecticut	299.66	208.96	22.61	68.09
Delaware	36.97	0.00	0.00	36.97
Florida	72.24	0.00	0.00	72.24
Georgia	21.55	0.00	0.09	21.46
Hawaii	27.84	0.00	0.00	27.84
Idaho	50.95	0.00	0.04	50.91
Illinois	69.66	0.04	6.23	63.40
Indiana	100.54	0.00	15.33	85.22
Iowa	85.11	0.00	0.00	85.11
Kansas	35.51	0.00	0.06	35.45
Kentucky	27.21	0.00	0.00	27.21
Louisiana	46.66	0.00	1.17	45.49
Maine	164.24	104.04	3.78	56.42
Maryland	451.54	174.98	0.00	276.55
Massachusetts	424.97	219.75	16.59	188.64
Michigan	173.67	0.05	1.49	172.13
Minnesota	151.51	0.00	0.00	151.51
Mississippi	126.91	0.00	0.00	126.91
Missouri	34.15	0.00	1.17	32.98
Montana	44.02	0.00	0.00	44.02
Nebraska	60.29	0.06	0.01	60.23
Nevada	178.32	0.00	0.00	178.32
New Hampshire	67.81	9.24	0.02	58.55
New Jersey	209.16	55.28	3.41	150.47
New Mexico	214.34	0.01	0.00	214.33
New York	773.88	239.93	315.00	218.95
North Carolina	81.09	0.00	0.00	81.09
North Dakota	74.33	0.05	0.13	74.15
Ohio	55.24	0.00	0.10	55.13
Oklahoma	17.05	0.00	0.32	16.73
Oregon	48.88	0.00	0.00	48.88
Pennsylvania	69.03	0.26	12.20	56.58
Rhode Island	284.04	220.37	22.13	41.54
South Carolina	30.39	0.00	0.00	30.39
South Dakota	25.58	0.00	0.17	25.41
Tennessee	193.65	116.81	0.33	76.51
Texas	11.58	0.00	0.15	11.43
Utah	17.35	0.00	0.00	17.35
Vermont	36.88	0.00	0.00	36.88
Virginia	381.96	237.76	35.94	108.26
Washington	100.38	0.02	0.13	100.23
West Virginia	8.02	0.00	0.00	8.02
Wisconsin	238.55	0.00	0.79	237.77
Wyoming	333.47	0.00	0.00	333.47
Average	**153.11**	**45.36**	**10.79**	**96.96**

Public welfare and education are important functions of government, and they are important to residents of cities. These functions, however, are not typically the legal responsibilities of city governments. Only 6 percent of public school systems were operated by cities and only 10 percent of public school students were enrolled in municipally operated school systems. In 1982 cities operated school systems in only 13 states, and even in those 13 states the practice was not universal. Most municipalities also have a limited role in public welfare. Of total state-local spending for public welfare, cities account for only 7 percent. Even this percentage drops dramatically when New York City is excluded. Excluding New York City brings the municipal share to roughly 1.5 percent of state local public welfare spending. New York City by itself therefore accounts for almost 80 percent of municipal spending on public welfare. (The appendices of this report contain fuller descriptions of the municipal role in these two functions.)

Another indication of the importance of adjusted city aid is the fact that in a majority of the states adjusted city aid composes 90 percent or more of state aid to cities.

What does a comparison of adjusted city aid produce? Since state size varies so tremendously, we must use "per city resident" figures for comparative purposes.

On the average, each state provides $97 dollars of adjusted city aid for each city resident. The amounts provided range from a high of $572 per city resident in Alaska to a low of $8 per city resident in West Virginia. The median amount provided by states in the form of adjusted city aid was $59 per city resident. In other words, half of the states provided more than $59 per city resident and half the states provided less than this amount.

Table III-5 groups states according to the amount of adjusted city aid provided per city resident. Table III-6 provides the figure for each state, along with a graphic view of the variation.

Clearly, there is a great degree of variation. There are no ironclad regional patterns, although six of the nine states providing less than $30 of adjusted city aid per city resident are located in the South. Thus, almost 40 percent of the Southern states fall into this low aid category compared to only 9 percent for the balance of the country. But three Southern states—Maryland, Mississippi, and Virginia—all fall into the highest categories of aid.

TABLE III-5
DISTRIBUTION OF STATES ACCORDING TO AID PER CITY RESIDENT

Adjusted City Aid per City Resident	Number of States
Less than $30	9
$30 to $50	11
$50 to $100	15
$101 to $250	12
More than $250	3
Total	50

TABLE III - 6
ADJUSTED CITY AID PER CITY RESIDENT (1986 Figures)

	Dollars
Alabama	23.63
Alaska	571.62
Arizona	170.69
Arkansas	49.06
California	89.44
Colorado	34.38
Connecticut	68.09
Delaware	36.97
Florida	72.24
Georgia	21.46
Hawaii	27.84
Idaho	50.91
Illinois	63.40
Indiana	85.22
Iowa	85.11
Kansas	35.45
Kentucky	27.21
Louisiana	45.49
Maine	56.42
Maryland	276.55
Massachusetts	188.64
Michigan	172.13
Minnesota	151.51
Mississippi	126.91
Missouri	32.98
Montana	44.02
Nebraska	60.23
Nevada	178.32
New Hampshire	58.55
New Jersey	150.47
New Mexico	214.33
New York	218.95
North Carolina	81.09
North Dakota	74.15
Ohio	55.13
Oklahoma	16.73
Oregon	48.88
Pennsylvania	56.58
Rhode Island	41.54
South Carolina	30.39
South Dakota	25.41
Tennessee	76.51
Texas	11.43
Utah	17.35
Vermont	36.88
Virginia	108.26
Washington	100.23
West Virginia	8.02
Wisconsin	237.77
Wyoming	333.47
Average	**96.96**

At the top of the scale (providing assistance in excess of $250 per city resident) are Alaska, Maryland, and Wyoming. In the cases of Alaska and Wyoming the concentration of population in municipalities and mineral wealth help explain these results. In the case of Alaska the much higher costs of living and governing are also an important factor.

A different factor skews the results in the case of Maryland. The city of Baltimore offers a full range of services (having no overlapping county government, as in the rest of the state) and contains more than half the state's incorporated population. As a result, it receives special funding. This makes a big difference in the figures: Baltimore received $464 per city resident, while the other Maryland cities received $50 per resident. Combining the adjusted aid figures and populations produces the $277 average reported in the tables.

Another way to look at the figures is to see what percentage of state spending is represented by "adjusted city aid". Table III-7 shows these figures.

Massachusetts devotes the greatest share of its spending—10 percent—to adjusted city aid. This high ranking once again reflects the centralization of public finance that has occurred in the wake of Proposition 2 1/2: the state serves as central revenue collector and passes the money out to city governments that have few ways to increase local revenues. Arizona and Wisconsin are next with adjusted city aid accounting for 9 percent of state spending. New Jersey and Wyoming are next with adjusted city aid composing 8 percent of the state budget.

At the other extreme, twelve states spend 1 percent or less of their state budgets on adjusted city aid. Table III-8 shows the pattern.

TABLE III-8
STATES GROUPED ACCORDING TO
ADJUSTED CITY AID AS A PERCENTAGE OF STATE SPENDING

Percentage of State Spending	Number of States
1% or less	12
2%	11
3% to 4%	13
5% to 6%	7
7% or more	7
Total	**50**

On the average, each state spends approximately 3.5 percent of its budget to provide adjusted city aid.

Yet another way of looking at this spending is to examine how significant adjusted city aid is as a percentage of city spending. To make comparisons more meaningful, this report uses a figure termed "adjusted city spending". This figure, derived from the Census report, is com-

TABLE III- 7
ADJUSTED CITY AID AS PERCENT OF STATE SPENDING

	Adjusted City Aid As Percent of State Spending
Alabama	1
Alaska	6
Arizona	9
Arkansas	2
California	4
Colorado	2
Connecticut	4
Delaware	1
Florida	3
Georgia	1
Hawaii	1
Idaho	2
Illinois	4
Indiana	4
Iowa	4
Kansas	2
Kentucky	1
Louisiana	2
Maine	3
Maryland	5
Massachusetts	10
Michigan	6
Minnesota	6
Mississippi	5
Missouri	2
Montana	1
Nebraska	3
Nevada	6
New Hampshire	5
New Jersey	8
New Mexico	7
New York	7
North Carolina	3
North Dakota	2
Ohio	3
Oklahoma	1
Oregon	2
Pennsylvania	2
Rhode Island	2
South Carolina	1
South Dakota	1
Tennessee	4
Texas	1
Utah	1
Vermont	2
Virginia	3
Washington	3
West Virginia	0
Wisconsin	9
Wyoming	8
Average	**3.5**

TABLE III - 9
ADJUSTED CITY AID AS A PERCENT OF CITY SPENDING (1986 Figures)

	Adjusted City Aid As A Percent of Adjusted City Spending
Alabama	5
Alaska	26
Arizona	23
Arkansas	17
California	15
Colorado	5
Connecticut	10
Delaware	5
Florida	13
Georgia	5
Hawaii	5
Idaho	16
Illinois	13
Indiana	19
Iowa	16
Kansas	6
Kentucky	7
Louisiana	8
Maine	15
Maryland	35
Massachusetts	30
Michigan	27
Minnesota	22
Mississippi	34
Missouri	7
Montana	8
Nebraska	15
Nevada	33
New Hampshire	15
New Jersey	35
New Mexico	28
New York	18
North Carolina	19
North Dakota	20
Ohio	11
Oklahoma	4
Oregon	9
Pennsylvania	11
Rhode Island	9
South Carolina	8
South Dakota	6
Tennessee	16
Texas	2
Utah	4
Vermont	10
Virginia	16
Washington	15
West Virginia	2
Wisconsin	39
Wyoming	45
Average	**15.6**

posed of all city spending minus amounts spent for four services not typically provided by city governments—utility operations (electricity, gas etc.), hospitals, and the two areas discussed before, public schools and public welfare. This adjusted spending figure is then compared to the level of adjusted city aid. Table III-9 lists the individual states according to this measure; Table III-10 groups states according to this measure.

TABLE III-10
STATES GROUPED ACCORDING TO
ADJUSTED CITY AID AS A PERCENTAGE OF ADJUSTED CITY SPENDING

Percentage of city spending	Number of States
Less than 5%	4
5% to 10%	16
11% to 20%	18
21% to 29%	5
30% and higher	7

For all states, adjusted city aid averages 15.6 percent of adjusted city spending. The median amount is 15 percent with an equal number of states falling above and below this benchmark figure.

Four states provide amounts equal to 35 percent or more of their cities' spending: Wyoming (45%), Wisconsin (39%), Maryland (35%) and New Jersey (35%). In another three states state aid is from 30 to 35 percent of city spending: Mississippi (34%), Nevada (33%) and Massachusetts at 30 percent. At the other extreme, four states provide amounts equal to less than 5 percent of city adjusted spending—Texas (2%), West Virginia (2%), Oklahoma (4%), and Utah (4%).

TABLE IV - 1
STATE AID INDICATORS - STATE RANKINGS
(1986 Figures - Tied States Receive Same Ranking)

	Adjusted City Aid Per Resident	Adjusted City Aid As Percent of State Spending	Adjusted City Aid As Percent of City Spending *
Alabama	45	39	42
Alaska	1	8	10
Arizona	10	2	11
Arkansas	31	28	17
California	16	15	22
Colorado	39	28	42
Connecticut	23	15	31
Delaware	36	39	42
Florida	22	21	27
Georgia	46	39	42
Hawaii	42	39	42
Idaho	30	28	18
Illinois	24	15	27
Indiana	17	15	14
Iowa	18	15	18
Kansas	38	28	40
Kentucky	43	39	38
Louisiana	33	28	35
Maine	28	21	22
Maryland	3	12	3
Massachusetts	7	1	7
Michigan	9	8	9
Minnesota	11	8	12
Mississippi	13	12	5
Missouri	40	28	38
Montana	34	39	35
Nebraska	25	21	22
Nevada	8	8	6
New Hampshire	26	12	22
New Jersey	12	4	3
New Mexico	6	6	8
New York	5	6	16
North Carolina	19	21	14
North Dakota	21	28	13
Ohio	29	21	29
Oklahoma	48	39	47
Oregon	32	28	33
Pennsylvania	27	28	29
Rhode Island	35	28	33
South Carolina	41	39	35
South Dakota	44	39	40
Tennessee	20	15	18
Texas	49	39	49
Utah	47	39	47
Vermont	37	28	31
Virginia	14	21	18
Washington	15	21	22
West Virginia	50	50	49
Wisconsin	4	2	2
Wyoming	2	4	1

*Two states tied for 49th rank; there is no 50th rank.

IV. SUMMING UP

How do states compare in terms of aid to the cities within their boundaries? The answer is found in a review of two summary tables.

The first summary table (Table IV-1) shows the ranking of each state on three of the criteria discussed in the previous chapter:

- Adjusted Aid per City Resident,
- Adjusted City Aid as a Percentage of State Spending, and
- Adjusted City Aid as a Percentage of City Spending.

Generally, if a state ranks high on one of the criteria, it tends to rank high in the others. For example, Alaska, which shows the highest adjusted city aid per city resident also ranks fifth in aid as a percentage of state spending and ninth when adjusted city aid is measured against city spending.

When reviewing the rankings it is important to point out that the two percentage measures—aid as a percent of state spending and aid as a percent of city spending—produce fewer than fifty rankings. This occurs because all percentages were rounded off to whole percentage points, resulting in a number of tied scores.

The second summary chart (Table IV-2) uses the same three rating categories, but instead of reporting ranks, reports an index number for each state on each of the three criteria. The index number is produced by dividing each state's score on the criteria by the average state score. This index approach has the advantage of showing not just a relative position but the extent to which the state diverges from the average figure.

TABLE IV - 2
STATE AID INDICATORS - INDEXED TO AVERAGE STATE (1986 Figures)

	Adjusted City Aid Per Resident	Adjusted Aid As Percent of State Spending	Adjusted Aid As Percent of City Spending
Alabama	24	28	32
Alaska	590	170	168
Arizona	176	256	148
Arkansas	51	64	107
California	92	104	95
Colorado	35	53	34
Connecticut	70	114	67
Delaware	38	15	34
Florida	75	96	81
Georgia	22	20	29
Hawaii	29	29	30
Idaho	53	67	102
Illinois	65	109	84
Indiana	88	120	119
Iowa	88	116	104
Kansas	37	60	41
Kentucky	28	26	43
Louisiana	47	48	49
Maine	58	99	95
Maryland	285	151	224
Massachusetts	195	274	192
Michigan	178	172	172
Minnesota	156	178	138
Mississippi	131	138	219
Missouri	34	51	45
Montana	45	41	51
Nebraska	62	96	96
Nevada	184	176	210
New Hampshire	60	148	93
New Jersey	155	240	224
New Mexico	221	191	179
New York	226	197	114
North Carolina	84	76	121
North Dakota	76	58	130
Ohio	57	74	71
Oklahoma	17	25	24
Oregon	50	52	57
Pennsylvania	58	60	69
Rhode Island	43	60	57
South Carolina	31	23	54
South Dakota	26	32	41
Tennessee	79	109	100
Texas	12	22	15
Utah	18	23	28
Vermont	38	56	65
Virginia	112	95	102
Washington	103	78	94
West Virginia	8	5	13
Wisconsin	245	263	251
Wyoming	344	232	290

This approach has the advantage of measuring the spread of the scores much more precisely. As might be expected it also produces a wider numerical spread than rank ordering. For example on the adjusted city aid per city resident measure Alaska finishes in first place at 5.9 times the average state performance on this criteria. At the other extreme West Virginia's performance is only eight percent of the level achieved by the average state.

The spread between the first and last ranked state is somewhat narrower when the two percentage measures are employed. When aid to cities is examined as a percentage of state spending, Massachusetts's performance is 2.7 times that of the average state, (a score of 274; the average state would achieve a score of 100). On this criterion, West Virginia finishes with a score of 5, indicating an effort that is 5 percent that of the average state.

When adjusted aid as a percentage of city spending is indexed, the range is from Wyoming at 290 (2.9 times the average state) to West Virginia at 13 (13 percent of the performance of the average state).

Which states come out nearest the average state performance? On adjusted aid per resident, Washington is closest to the average with an index of 103. Maine comes out closest to the average when adjusted aid to cities is measured as a percentage of state spending. When adjusted state aid to cities is measured as a percentage of city spending, Tennessee finishes just at the "average state" with an index of 100.

Further questions that appear worthy of future research include the following:

1. What have been the state by state trends in adjusted state aid per capita particularly since the imposition of so many new tax limits on city governments in the latter half of the 70s?

2. Shared taxes such as gasoline, cigarette, liquor, and sales taxes undoubtedly represent a sizeable percentage of adjusted city aid. How significant are they, both overall and in each state?

3. Can underlying relationships be discovered which help better explain the different levels of adjusted state aid?

It is the goal of future NLC research to examine these and related questions.

APPENDIX A
SOURCES OF INFORMATION

The primary sources of the data used to produce this paper are U.S. Bureau of the Census documents. The central document used was *Government Finances in 1985-86*, published in 1988. This document contains the most recent comprehensive revenue and expenditure data on a state by state basis by type of government.

Government Finances is produced annually by the Governments Division of the Census Bureau as part of its regular series on governmental finance. The governmental finance series for 1986 contains seven other publications (see Table A-1). The 1986 listing is representative of the annual composition of the government finance series.

While *Government Finances* contains a series of tables the central one used to derive the numbers in this report was Table 29, "State and Local Government Revenue and Expenditure by Level and Type of Government, by States: 1985-86". A sample of Table 29 for one state appears on page 31.

TABLE A-1
U.S. BUREAU OF CENSUS – 1986 GOVERNMENTAL FINANCE SERIES

Summary Volume

Government Finances in 1985-86 (GF-86, No.5) Individual States By Jurisdiction Type
State Government Finances in 1986 (GF-86, No. 3)
City Government Finances in 1985-86 (GF-86, No. 4)
County Government Finances in 1985-86 (GF-86, No. 8)
Finances of Public School Systems in 1985-86 (GF-86, No.10)

Other Reports

State Government Tax Collections in 1986 (GF-86, No. 1)
Local Government Finances in Major County Areas 1985-86 (GF-86, No. 6)
Finances of Employee-Retirement Systems of State and Local Governments in 1985-86 (GF-86, No. 2)

Data from this table for each state were divided by unpublished Census Bureau estimates of state by state municipal population totals to derive the "per city resident" figures used in the main body of this paper. Adjustments were made to the Census figures reported for municipal governments in the seven northeastern states of Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island, and Vermont. In these states town governments function in a manner very similar to "municipal" governments in most other states. Additionally in these states town governments are integral and often the predominant membership of the state municipal leagues. Therefore, the town figures for these states were added to the municipal figures. Since these town governments (in combination with municipalities) cover essentially all the inhabited area of the states, total state population figures were used to produce the "per resident" figures for these seven states.

The data contained in the Census report are not based on a complete enumeration of all 20,873 city and town governments represented in this paper. The Census Bureau instead relies on a combination of direct examination of financial records of the 49 cities exceeding 300,000 population, mail questionnaires, and the use of centrally collected local financial data in 34 states.

Statistical procedures are used where necessary to supplement these data gathering techniques.

The figures thus produced, while not of an accounting nature, produce aggregate numbers with a relatively high degree of reliability that can be used to monitor trends and make general comparisons. Because of the nature of these figures, some care should be exercised in making too much of relatively small differences between states in the various measures reported in this paper.

A more complete description of the data definitions and methodology used to compile *Governmental Finance* is contained in the document. Copies of the report may be ordered from U.S. Government Printing Office, Washington, D.C. 20402-9325 or by phoning the order office at (202) 783-3238.

Other Sources of Information on this Topic

In addition to the annual governmental finance series, the Governments Division of the Census produces once every five years a more detailed series of reports called *The Census of Governments*. The 1987 series of these documents is in preparation during the 1988 calendar year. For detailed information about this series contact the Governments Division of the Census Bureau at (301) 763-7664. The Advisory Commission on Intergovernmental Relations annually produces a document titled *Significant Features of Fiscal Federalism* which compiles governmental finance data from a variety of sources, relying heavily on the Census. This document is a convenient and accessible source for a variety of trend and comparative data.

The Advisory Commission on Intergovernmental Relations also has recently begun a program of making available for sale a variety of selected data contained in the Census governmental finance series in the form of computer diskettes for use on personal computers. These diskettes used in combination with spreadsheet software can be employed to produce a variety of comparative information. These diskettes are useful for producing a variety of state to state, city to city, county to county and state area (state-local totals to state-local totals) comparisons. They do not, however, contain the state level summary information by type of jurisdiction as used in this report.

For information on *Significant Features* or the microcomputer diskette series contact: ACIR Publications, 1111 20th Street, N.W., Washington D.C. 20575 or by phone at (202) 653-5640.

Table 29. State and Local Government Revenue and Expenditure by Level and Type of Government, by States: 1985-86—Con.

[Thousands of dollars. For meaning of symbols, see text. Because of rounding, detail may not add to totals]

Item	State and local government, total	State government	Local governments					
			Total	County	Municipal	Township	School district	Special district
NORTH CAROLINA								
Revenue, total	**18 726 214**	**10 801 082**	**9 234 876**	**5 644 972**	**2 538 343**	-	-	**1 039 948**
General revenue	13 044 175	8 903 826	7 240 103	5 484 693	1 386 365	-	-	573 432
Intergovernmental revenue, total	2 448 433	2 141 706	3 406 482	2 910 662	554 210	-	-	125 997
From Federal Government[1]	2 448 433	2 017 531	430 902	151 955	160 227	-	-	118 720
Education	468 842	438 248	30 594	30 594	-	-	-	-
Public welfare	838 793	822 639	15 954	15 954	-	-	-	-
From State governments[1]	(*)	-	2 975 580	2 740 504	231 734	-	-	3 342
Education	-	-	2 369 678	2 369 678	-	-	-	-
Public welfare	-	-	153 599	153 599	-	-	-	-
From local governments	(*)	124 174	(*)	18 203	162 249	-	-	3 936
General revenue from own sources	10 595 742	6 762 121	3 833 621	2 554 031	832 155	-	-	447 435
Taxes	7 738 086	5 579 710	2 158 376	1 645 567	511 417	-	-	1 372
Property	1 674 980	69 007	1 605 973	1 128 370	478 231	-	-	1 372
General sales	1 861 580	1 384 069	477 511	477 511	-	-	-	-
Motor fuel	424 208	424 208	-	-	-	-	-	-
Motor vehicle license	198 919	195 300	3 619	71	3 548	-	-	-
Income--individual and corporation	2 718 844	2 718 844	-	-	-	-	-	-
Other taxes	859 555	788 282	71 273	41 635	29 638	-	-	-
Current charges, total[1]	1 909 861	803 064	805 997	419 876	136 162	-	-	249 959
Education	683 873	525 035	158 838	158 838	-	-	-	-
Hospitals	511 291	148 881	362 410	183 943	11 301	-	-	167 166
Miscellaneous revenue, total[1]	1 247 795	378 547	869 248	486 566	184 578	-	-	198 104
Interest earnings	652 953	259 067	393 886	94 923	110 606	-	-	188 357
Utility revenue	1 508 203	-	1 508 203	27 209	1 025 478	-	-	455 516
Liquor store revenue	265 062	-	265 062	153 070	111 992	-	-	-
Insurance trust revenue, total[1]	1 908 774	1 897 266	11 508	-	11 508	-	-	-
Employee retirement	1 408 309	1 396 801	11 508	-	11 508	-	-	-
Expenditure, total	**15 486 619**	**9 389 491**	**9 615 496**	**5 866 637**	**2 391 834**	-	-	**1 711 766**
By character and object:								
Intergovernmental, total	-	3 402 507	95 960	125 305	10 632	-	-	14 384
To Federal Government	-	-	-	-	-	-	-	-
To State governments	(*)	-	95 960	81 808	3 022	-	-	11 030
To local governments	(*)	3 402 507	(*)	43 497	7 610	-	-	3 334
Current operation	11 458 386	4 116 561	7 341 825	4 822 986	1 873 837	-	-	645 122
Capital outlay	2 056 179	666 319	1 389 860	349 148	431 403	-	-	589 311
Construction	1 610 073	496 392	1 113 681	239 580	292 027	-	-	582 074
Equipment, land, and existing structures	446 106	169 927	256 179	109 568	139 376	-	-	7 237
Assistance and subsidies	326 765	272 535	54 230	54 230	-	-	-	-
Interest on debt	921 976	171 573	750 403	215 090	472 345	-	-	462 968
Insurance benefits and repayments	723 313	719 996	3 317	-	3 317	-	-	-
Exhibit: Expenditure for salaries and wages	5 976 524	2 059 374	3 917 150	3 033 381	766 105	-	-	117 664
Direct expenditure by function, total	15 486 619	5 986 984	9 519 635	5 441 332	2 380 902	-	-	1 697 401
General expenditure	12 099 257	5 246 988	6 852 269	5 241 753	1 229 802	-	-	380 914
Current expenditure	10 795 962	4 580 669	6 235 313	4 936 501	1 000 303	-	-	298 509
Capital outlay	1 303 275	666 319	616 956	306 252	229 299	-	-	81 405
Education services:								
Education	5 322 111	1 639 375	3 682 736	3 682 736	-	-	-	-
Elementary and secondary education[1]	3 356 230	59 892	3 296 338	3 296 338	-	-	-	-
Capital outlay	188 796	36 343	152 453	152 453	-	-	-	-
Higher education[1]	1 770 579	1 384 181	386 398	386 398	-	-	-	-
Capital outlay	166 405	133 757	32 648	32 648	-	-	-	-
Other education[3]	195 302	195 302	-	-	-	-	-	-
Libraries	53 241	3 997	49 244	40 847	8 397	-	-	-
Social services and income maintenance:								
Public welfare	1 140 445	902 012	238 433	237 657	776	-	-	-
Hospitals	783 635	425 604	358 031	186 825	11 301	-	-	159 905
Health	377 897	136 322	241 575	238 822	2 753	-	-	-
Employment security administration	86 269	86 269	-	-	-	-	-	-
Veterans' services	2 276	2 276	-	-	-	-	-	-
Transportation:								
Highways[1]	981 278	816 386	164 892	54	164 838	-	-	-
Capital outlay	413 629	365 051	48 778	47	48 731	-	-	-
Air transportation	84 545	-	84 545	13 278	14 885	-	-	36 704
Parking facilities	15 075	-	15 075	82	15 013	-	-	-
Water transport and terminals	22 752	22 752	-	-	-	-	-	-
Transit subsidies	853	-	853	228	425	-	-	-
Public safety:								
Police protection	418 433	91 480	326 953	112 152	214 801	-	-	-
Fire protection	144 417	-	144 417	26 677	117 740	-	-	-
Correction	315 382	281 875	33 507	33 507	-	-	-	-
Protective inspection and regulation	74 923	48 496	26 427	14 735	11 692	-	-	-
Environment and housing:								
Natural resources	215 287	194 783	20 504	18 202	2 115	-	-	2 187
Parks and recreation	168 429	17 162	151 267	24 597	126 670	-	-	-
Housing and community development	230 290	20 805	209 685	16 483	71 826	-	-	121 376
Sewerage[1]	43 463	58	43 405	3 580	21 033	-	-	18 812
Capital outlay	21 052	30	21 022	2 955	3 903	-	-	14 264
Sanitation other than sewerage	151 499	-	151 499	48 599	102 900	-	-	-
Governmental administration:								
Financial administration	193 496	86 556	104 940	87 191	37 749	-	-	-
Judicial and legal	140 648	124 693	15 955	10 908	5 047	-	-	-
General public buildings	97 883	22 650	75 233	53 683	21 550	-	-	-
Other governmental administration	156 255	27 848	128 407	55 948	72 459	-	-	-
Interest on general debt	485 765	171 573	294 192	207 885	44 427	-	-	41 880
General expenditure, n.e.c.	452 610	142 216	310 394	149 119	161 225	-	-	50
Utility expenditure	2 437 404	-	2 437 404	67 914	1 053 003	-	-	1 316 487
Liquor store expenditure	226 645	-	226 645	131 865	94 980	-	-	-
Insurance trust expenditure, total[1]	723 313	719 996	3 317	-	3 317	-	-	-
Employee retirement	482 255	478 938	3 317	-	3 317	-	-	-

APPENDIX B: CITIES AND EDUCATION AND PUBLIC WELFARE

To develop figures on state aid to cities and towns that are roughly comparable from state to state, this report used the concept of "adjusted state aid" rather than "total state aid". "Adjusted state aid" was defined as total state aid minus amounts paid for the two functions of (1) education and (2) public welfare.

As explained in the report this statistical adjustment was made because the majority of American city and town governments are not responsible for these functions. Some American cities, notably New York City, however, are responsible for these two functions. Because of their large size their unadjusted inclusion in comparative statistics would skew the results and make meaningful comparisons difficult.

The following brief sections attempt to describe more fully the number of cities that have roles in these two functions of education and public welfare and the extent of those roles.

Education

Education spending accounted for 13 percent of municipal spending in 1986, and aid to education provided by states constituted 26 percent of total state aid provided to cities. However, education is not typically a legal responsibility of cities and towns in most states. While America's cities and towns are responsible for educating 10 percent of the country's public school enrollment, only 4.5 percent of America's 20,873 cities and towns operate school systems.

State constitutions generally establish education as a legal responsibility of the state government. Typically, the state assigns the operating responsibility to independent or dependent school systems. The state generally retains substantial funding obligations and exercises supervisory and standard setting authority over these locally based school systems.

Independent school systems are the most common method of organizing the provision of elementary and secondary education services. Independent school systems are those operating independent of any other unit of local government. These independent school systems operating as independent units of government are usually presided over by a directly elected board of directors and have direct tax levying authority. Such independent school systems make up 91 percent of all school systems, represent 82 percent of public school enrollment, and expend 82 percent of school expenditures.

The other type of school system organization is termed "dependent"; this category includes city- and town-operated systems as a subset. Such dependent systems are legally part of another unit of local or state government. More than half (55 percent) of such dependent systems are related to a city or town government. Table B-1 shows the distribution of dependent school systems by type of sponsoring government. In 1981 such dependent school systems made up 9 percent of all public school systems and accounted for 18 percent of both school system spending and enrollment.

TABLE B-1
PUBLIC SCHOOL SYSTEMS BY FORM OF ORGANIZATION - 1981

	1981 Fall Number of Systems	Enrollment 1,000	Percent of Systems	Percent of Enrollment
Independent School Systems	14,851	35,614	91	82
Dependent School Systems	1,538	7,937	9	18
State	24	176	–	–
County	578	3,420	3	8
City*	936	4,341	6	10
All Public Systems	16,389	43,551	100	100

*Includes "town-dependent" systems in: Connecticut, Maine, Massachusetts, New Jersey and Rhode Island.

Source: U.S. Bureau of Census, *Finances of Public School Systems in 1984-85*, Table A, page v.

In 1982, municipally dependent (municipally operated) school systems existed in only twelve states and the District of Columbia, and in seven of those states they served less than half of the state's public school enrollment. Municipally dependent school systems, however, are very significant in some states and areas (see Table B-2).

Municipally dependent school systems provide education to 100 percent of public school students in the District of Columbia, 97 percent of public school enrollment in Rhode Island, 95 percent in Connecticut, and 89 percent in Massachusetts. In Alaska (54 percent) and Maine (53

percent) municipally dependent school systems also provide educational services to more than half of the total public school enrollment.

In five other states, municipally dependent school systems account for more than one quarter of public school enrollment: New York (40 percent), Tennessee (37 percent), Virginia (34 percent), New Hampshire (29 percent) and Wisconsin (26 percent). In the other two states with municipally dependent school systems, lower percentages of the total enrollment are shown: New Jersey (23 percent) and Maryland (16 percent).

According to fall 1984 enrollment statistics reported by the U.S. Census Bureau, three of the twenty largest school systems in the country are municipally operated. These systems are those run by New York City, Baltimore, and Memphis, Tennessee.

TABLE B-2
CITY DEPENDENT SCHOOL SYSTEMS BY STATE – 1982

State	Number of City Dependent Systems	Percent of Systems	Enrollment in City Dependent Systems	Percent of Public School Enrollment in State
Alaska	23	44	49,026	54
Connecticut	150	90	480,150	95
District of Columbia	2	100	108,876	100
Maine	194	66	116,365	53
Maryland	2	5	132,827	16
Massachusetts	351	81	842,311	89
New Hampshire	9	5	46,623	29
New Jersey	36	6	315,373	23
New York	8	1	1,238,826	40
Rhode Island	37	93	138,824	97
Tennessee	38	26	311,896	37
Virginia	45	32	333,212	34
Wisconsin*	41	9	226,652	26
Total for Above States	936	–	4,340,961	–
Total U.S. Public Schools	16,389	..	43,551,482	–
Municipally Dependent Systems as Percent of Total	6%	..	10%	..

Source: NLC Computations based on 1982 Census of Governments: "Governmental Organization," Table 12. Public school systems and school operating systems by states 1982.

Includes "town-dependent" systems in: Connecticut, Maine, Massachusetts, New Jersey and Rhode Island.

* Number as of January 1982; 1981 state legislation required all of these dependent school systems in Wisconsin to reorganize as independent systems.

The New York City School System, with an enrollment of 930,000, is the largest in the country and serves 2 percent of all public school students in the United States. This system is over one and one-half times as large as the next largest system, the Los Angeles Unified School District (an independent school system with an enrollment of 554,000). Some sense of the size of the New York School system is gained by realizing that it enrolls a greater number of students than the entire population of San Antonio, Texas (which itself is the tenth largest city in the United States).

The other two municipally operated school systems among the twenty largest systems are those of Baltimore, with an enrollment of 114,000, and Memphis, with an enrollment of 109,000. In summary, while municipally operated school systems provide educational services for a significant portion of America's public school students (10 percent of total public school enrollment attends municipally operated school systems), the responsibility of running public schools is not typical for most of America's cities and towns. Only 4.5 percent of cities and towns are responsible for operating public schools.

Public Welfare

This paper uses the U.S. Census Bureau definition of public welfare: "Support of and assistance to needy persons contingent upon their need." This definition includes

- cash assistance such as Old Age Assistance, Aid to Families With Dependent Children, Aid to Blind and Disabled;
- vendor payments made to service providers for services rendered to the needy (this would include payments to vendors for medical services provided to the needy); and
- operation of public welfare institutions and agencies including payments made to other governmental agencies for such services. (This category does not include housing or community development expenditures, nor does it include heath or hospital services provided directly by the government through its own hospitals or health agencies.)

The federal government has a very significant role in the provision of public welfare services both by the selection of the programs it offers, and, since most of the programs are offered as grant programs to the states, the requirements placed on the states when operating these programs. This significant federal role in the design of public welfare services does not, however, result in uniformity. Public welfare services in the United States are distinguished by their variety—both in the level of services offered and in the units of government actually delivering the services.

The federal government provides roughly 65 percent of the governmental funds used for public welfare services in the United States, under the Census definition used in this paper, but it directly operates only 26 percent. The difference is primarily accounted for by grants to support public welfare programs operated in state and local governments. Of the $100 billion dollars spent on public welfare, programs operated directly by the federal government account for 26 percent of the total, programs directly operated by state governments account for 56 percent of the total; programs operated by county governments account for 12 percent and those operated by cities, 6 percent.

The city pattern, however, is one of concentration in a few major cities. New York City by itself accounts for more than 80 percent of the total spent by cities on public welfare services. Roughly another 10 percent of this city spending is done by another six major cities, most of them delivering services because of their role as "city-counties." These other six cities are: Washington, D.C., San Francisco, Chicago, Denver, Indianapolis, and Newark, New Jersey.

Excluding these seven major cities, cities are significant in public welfare spending (constituting more than five percent of total state-local spending on public welfare) in only three states—Connecticut, Rhode Island, and Virginia. In Connecticut and Rhode Island, towns and cities are significant across the entire geographic areas of the states in the delivery of public welfare services. In Virginia, the municipalities classified as "cities" (principally, but not exclusively the larger jurisdictions), have exclusive jurisdiction over their geographic area (there being no overlapping county). They thus perform public welfare services that county governments typically perform for individuals residing outside the boundaries of these special Virginia cities.

Again, it must be emphasized that spending on significant social services such as housing, community development and direct provision of medical care service, areas in which cities are active, are not included in the Census definition of public welfare, but instead are reported in separate categories. While administration of the major programs of American public welfare system such as Medicaid, Aid to Families With Dependent Children, and Food Stamps are not typically functions performed by American city governments, a number of cities do spend some funds in the public welfare area, frequently to provide specialized services to fill gaps left by other programs.

For example, in 1986, 44 percent of the 431 cities with populations greater than 50,000, spent some funds on public welfare, but in only 16 percent (70 cities) did the spending exceed $10 per capita. This modest level of expenditure can be compared to a figure for those cities that do operate the mainstream income support programs, such as: $632 per capita in New York City, $166 per capita in Denver, $841 in the District of Columbia, $76 per capita in Indianapolis, and $233 in San Francisco.

ABOUT THE NATIONAL LEAGUE OF CITIES

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them: develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

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